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SUBJECT: PREMIER CONFIDENT CHINA CAN OVERCOME GLOBAL
FINANCIAL CRISIS IN REPORT TO NPC

REF: A. BEIJING 559
[1](#)B. BEIJING 531

Classified By: Political Internal Unit Chief
Dan Kritenbrink. Reasons 1.4 (b/d).

Summary

[1](#)1. (SBU) Premier Wen Jiabao said China is confident it can overcome the difficulties caused by the global financial crisis in presenting his annual "Government Work Report" to the opening session of the National People's Congress on March 5. In China's equivalent of the State of the Union address, Wen focused on implementation of China's fiscal stimulus package and other measures to counter the global financial crisis, particularly boosting domestic demand and addressing the growing unemployment problem. Wen set the goal of eight percent growth in the year ahead and promised significant public spending on infrastructure, education, health care, the social safety net and rural needs. The Premier also underscored the importance of energy conservation, emissions reduction and environmental protection. Briefly addressing foreign policy, Wen emphasized China's role as an international player and the need for global cooperation to solve the financial crisis. On Taiwan, Wen continued the leadership's current conciliatory line by noting the "major breakthroughs" in cross-Straits relations, and by reiterating China's willingness to conclude a "peace agreement," make "fair and reasonable arrangements" on Taiwan's participation in international organizations and hold "exploratory discussions" on political and military issues. End Summary.

Premier Wen Kicks Off PRC's Annual Political Theater

[1](#)2. (SBU) China's nominal legislature, the National People's Congress (NPC), opened March 5 in Beijing's Great Hall of the People amid great fanfare, tight security and media reports of harassment of petitioners and activists. NPC Chairman Wu Bangguo called the meeting to order and immediately yielded the floor to Premier Wen Jiabao, who read his two-hour and five minute "Government Work Report," China's equivalent of the State of the Union address, to the nearly 3,000 assembled deputies and the diplomatic and press corps. Delegates applauded politely throughout, mostly on cue from Wen, but responded more enthusiastically to Wen's pledges to build safe schools, ensure that no student will be deprived of education because of poverty and his praising of the nation's response to last year's Sichuan earthquake and the Olympics. Wen received the strongest and most sustained applause for his positive and conciliatory remarks on Taiwan, which he concluded by predicting the eventual "complete reunification of the motherland." The session was attended by China's entire senior leadership, including the 25 members of the Communist Party Politburo.

Economic Plan for 2009: Difficult Year, Arduous Tasks

13. (U) Despite his prediction that 2009 would be the most difficult year for China's economic development since 2000, Premier Wen declared that China is confident it can overcome the difficulties caused by the global financial crisis. The Premier asserted that, in the midst of this crisis, both "challenges and opportunities coexist, as do hardships and hopes." Ensuring steady and rapid economic growth would be the main economic task, and to achieve that end the government needs to strengthen and improve macroeconomic control, expand domestic -- particularly consumer -- demand, change China's pattern of development and accelerate economic restructuring. In addition to a deteriorating external economic environment and weak consumption demand, Wen mentioned other economic challenges facing the country including institutional and structural problems, a sluggish service sector, weak capacity for innovation, pollution and waste and the urban-rural and regional income gaps. Major targets for the year include approximately eight percent GDP growth, urban unemployment under 4.6 percent, consumer price index around four percent and a balance of payments improvement.

Financial Crisis, Stimulus Package, Restructuring

14. (U) Wen said the government would give high priority to dealing with the global financial crisis and promoting rapid and steady economic growth in 2009. He noted the RMB four trillion (USD 585 billion) fiscal stimulus plan announced last November, which includes RMB 1.18 trillion funded by the

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central government. Other measures include the following:

-- Revenues Down, Spending and Deficit Up: As part of its proactive fiscal policy, Wen said the government will significantly increase spending as the most direct and efficient way to expand domestic demand. This, together with the slowing economy and reduced taxation, will raise the combined central and local government fiscal deficit to RMB 950 billion (USD 139 billion), which the Premier said would be less than three percent of GDP. Tax reductions and reforms will reduce tax burdens on enterprises and individuals and thereby encourage both investment and consumption; specific preferential policies will benefit small and medium-sized enterprises, the real estate and securities industries, and exporters (through VAT reform and rebates).

-- "Moderately Easy" Monetary Policy: Wen said monetary policy will play a more active role in promoting economic growth. Broad money supply will grow by about 17 percent, and the Government will grant over five trillion RMB in additional loans to ensure adequate credit availability. At the same time, however, officials will implement systemic changes to improve the credit structure and flow of funds, while also strengthening financial oversight and supervision.

Wen noted the need to strike a balance between financial sector innovation and opening on the one hand, and oversight and supervision on the other.

-- Challenges to Expanding Consumption: Wen's report cited recently announced measures to strengthen retail networks, particularly in rural areas, and said the Government will push policies to encourage purchases of home appliances, autos and other goods in the countryside. Although boosting rural income is highlighted as key to boosting consumer demand, the NDRC's Plan for National Economic and Social Development, also released in draft on March 5, admits that uncertainty about agricultural commodity prices as well as the loss of non-farm jobs means the Government "cannot be optimistic" that rural income growth will remain strong.

-- Industrial Re-structuring: Wen noted the previously

announced plans to invigorate ten industrial sectors, including steel, petrochemicals, shipbuilding and others. Mergers and acquisitions will be encouraged to rationalize production and improve efficiency, and the government will adopt specific measures and increase funding to support small and medium-sized enterprises.

-- Reform and Opening the Driving Force: Wen said China would continue to deepen reform and opening, which he described as the "driving force" for economic and social development. Financial reforms would address state-owned financial institutions; small and medium-sized as well as rural financial institutions; the informal financial sector; the insurance sector; and capital, stock, bond and futures markets. Interest rates would be subject to market-based reform and the RMB exchange rate regime will be improved, although Wen said the exchange rate would remain "basically stable at an appropriate and balanced level."

-- Trade Still Important: Despite the need to rebalance the economy in favor of domestic consumption, Wen said "we must not slacken efforts to promote trade" in the face of declining external demand and growing international trade protectionism. To improve the international trade environment, Wen said China would "vigorously promote" the Doha round of trade talks and also "properly handle trade frictions."

Ongoing Rural Challenges

15. (SBU) In his report, Wen reiterated the usual litany of rural issues and claims that the Government would greatly increase funding for agriculture and rural areas in 2009. But it appears the government aims to boost spending on agriculture, rural areas and farmers (san nong) by only 20 percent in 2009. (Note: In 2008, "san nong" expenditures increased 37.9 percent over the previous year, exceeding the original 30 percent spending goal in last year's report.) Wen mentioned briefly the need for reforms to land policy but was not specific and did not go beyond last fall's Third Party Plenum. In fact, as predicted by many Embassy contacts, the impetus for land reform appears to have been eclipsed by the current financial crisis, with Wen largely limiting his comments on land to saying that "the transfer of land use rights must ... be conducted in accordance with the law."

Tackling the Employment Issue

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16. (SBU) Indicating that dealing with unemployment remains a top government concern, Wen devoted considerable time to discussing the issue. He said the global financial crisis was spreading and getting worse, leading to "severe unemployment" in China. (Note: Wen cited the official "registered unemployment rate" of 4.2 percent. This figure only counts registered urban residents in the formal sector and significantly understates the unemployment rate, which various unofficial surveys suggest is between six and 10 percent for workers engaged in wage employment.) Wen said maintaining economic growth was essential to continue expanding employment and maintaining social stability. The government would maintain a GDP growth rate of eight percent, and keep "registered unemployment" below 4.6 percent for 2009.

17. (U) Wen committed to a "proactive employment policy" targeted mainly at unemployed college graduates, migrant workers and the urban unemployed. The government would take measures to promote job creation in small- and medium-sized and private-sector enterprises. He pledged to improve government job-placement and other employment services. The government could help enterprises in financial difficulty to

prevent layoffs, by renegotiating wages levels with their employees, adopting flexible work hours and funding on-the-job training programs. Wen announced that the 2009 budget contained an additional 42 billion yuan for employment programs (e.g., vocational training and small business loans programs, many of which were funded out of unemployment insurance funds in late 2008-early 2009).

¶18. (U) Wen outlined various subsidies and incentives for unemployed graduates who join the military or take public service positions, including newly created public sector positions in local government or in remote areas. The government would create vocational training bases for unemployed graduates and help ensure that government-funded research projects create job opportunities for graduate research assistants. The government would create public sector jobs for unemployed urban residents, members of jobless households, and workers in disaster-stricken areas.

¶19. (SBU) For migrant workers, Wen described measures that would both provide jobs and encourage unemployed migrants to return to their rural hometowns. The government would consider job creation in rural areas as a factor in approving major government construction projects. Wen also described vocational training and small business loan programs for migrant workers who return to their home towns. (Note: There was no discussion in the Government Worker Report of any reform of the household registration system, which many observers regard as a deterrent to migrant worker employment.)

Social Welfare Issues

¶10. (U) Continuing the current leadership's emphasis on ensuring that all benefit from China's dramatic economic development, Premier Wen's report again addressed a range of social issues, primarily designed to assist China's poor. Improving the "social safety net," primarily pensions but also unemployment insurance and minimum income support, was given top priority. The details:

-- Social Welfare: Wen announced a 17.6 percent increase in social safety net spending in 2009 to improve the social welfare system. Wen made no mention of the draft Social Insurance Law, now in its second reading before the NPC.

-- Pensions: China would continue efforts under existing pilot programs to ensure that personal pension accounts are fully funded. The government would launch a new pension system for rural residents on a trial basis in 10 percent of China's counties in 2009. The government would issue a set of nationwide rules in 2009 on transferring pension benefits between jurisdictions, addressing a long-term problem that makes pension insurance inaccessible for many migrant workers. The government would find new ways to extend pension coverage to uncovered migrant workers, landless rural residents and informal sector workers.

-- Education: Wen's report outlined plans to provide free compulsory (through ninth grade) education to rural children and to allow the children of migrant workers better access to schools in urban areas where their parents work. The government would increase its funding for rural compulsory education from 300 to 500 yuan per student per year. (Note: Until recently migrant children were often barred from city

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schools.) The report also outlines plans to raise salaries for China's 12 million primary and secondary school teachers while implementing a pay-for-performance system. Premier Wen drew applause from delegates when he said "no child should be forced to drop out of school due to family financial difficulties" and, in an apparent reference to the high number of student deaths in the May 12 earthquake, when he stressed the need to provide safe school buildings.

-- Health Care: Wen said China would continue to increase funding for the New Rural Cooperative Medical Care program and increase the number of people covered under pilot Urban Resident Basic Medical Care programs for non-working urbanites. The government's goal was to ensure that 90 percent of those eligible for state-funded urban and rural medical care programs would be covered within three years. The government announced an additional 850 billion yuan to reform the health care system over the next three years, including 332 billion yuan in central government funding. The government would build 29,000 health clinics in towns and townships to expand access to basic care.

Social Stability

¶12. (SBU) Premier Wen gave greater emphasis to social stability in this year's report, explicitly addressing the need to properly handle social tensions, petitioners and mass incidents. New this year was language imploring "leading cadres, especially principal ones" to become directly involved in receiving petitioners "in order to serve the people and resolve conflicts." At the same time, Wen indicated that the government would respond swiftly to incidents of unrest by stating that the government would "launch intensive campaigns" to "ensure public security" and "maintain law and order," and would "severely crack down on criminal offenses" in order to safeguard national security and social stability.

Energy and Environmental Protection Highlighted

¶13. (C) Premier Wen also underscored the importance of energy conservation, emissions reductions and environmental protection:

-- Energy Consumption and Emissions: The Premier detailed successes in reducing overall sulfur dioxide emissions and energy consumption per unit of GDP. He did not, however, provide specific information on China's progress towards meeting its Five-Year Plan energy efficiency targets.

-- Clean Energy: Wen noted that projects aimed at protecting the environment and conserving energy would be included in this year's RMB 908 billion infrastructure investments, and he emphasized the development of nuclear, wind and solar power, as well as clean coal technology. Wen reaffirmed controls on lending to energy intensive industries and highly polluting enterprises.

-- Climate Change: The Premier announced no changes to climate change policy, repeating a sentence from last year's report stating that China will "implement the national plan to address climate change and become better able to respond to it."

-- Power Pricing Reform: New to this year's report, Wen emphasized that the government would move ahead with price reform for resource products, including by deepening power pricing reforms. (Comment: China's power sector recorded steep losses in 2008 due to capped electricity tariffs, high coal prices and earthquake-related infrastructure damage. Pressure on the government to balance coal and power prices has been mounting in recent months, as generators have been hit by falling industrial power demand due to the economic crisis.)

Foreign Policy: Cooperation on Financial Crisis

¶14. (C) As is the norm, foreign policy, security and cross-Straits relations were dealt with briefly at the end of Wen's speech. Cooperating with other countries to combat the global financial crisis was the primary focus of the foreign policy section this year, with Wen stating that China had "joined hands" with the international community to "tackle"

the crisis. China's successful hosting of the Asia-Europe meeting was specifically mentioned. China would work with other countries to curb the spread of the global financial crisis, promote reform of the international financial system and oppose trade and investment "protectionism." As in 2008,

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Wen also said China had "actively advanced bilateral and multilateral diplomacy" and played a "constructive role in global and regional hot spot issues." Using apparently new language, Wen said this year that China's international standing and influence "rose to a new height." He concluded with standard language asserting that China will adhere to a "path of peaceful development" and strive to "build a harmonious world of durable peace and common prosperity."

¶15. (U) The main theme in the brief section on national defense, as in past years, was PLA modernization, with Wen saying that China in the year ahead would need to make the military "more revolutionary, modern and standardized" so as to "carry out its historic missions in the new stage and in the new century." There was no reference to the last two years' statements regarding the need to follow the ideological thinking of China's past and present leaders. Early in the report, Wen praised the military for its selfless efforts after the May 12, 2008 Wenchuan earthquake, noting that the military had "rushed to the front lines without thinking of their own safety." He later remarked on the "urgent, difficult, dangerous, and daunting" tasks the PLA had completed in the past year.

Conciliatory Line on Taiwan

¶16. (SBU) Reflecting the significant improvement in cross-Strait relations over the past year, and summarizing several proposals previously made by President Hu Jintao, Premier Wen's comments on Taiwan were conciliatory and positive, particularly compared to previous years' reports. Unlike past years, and similar to CPPCC Chairman Jia Qinglin's remarks on March 3, Wen made no reference to "Taiwan independence" or "secession." Instead, Wen emphasized the "important progress" and "major breakthroughs" in cross-Strait relations, which he said had "embarked on the track of peaceful development." China would work to "build a framework for" and "strive to achieve new progress in" cross-Strait relations. The premier made extensive reference to economic and financial cooperation, including accelerating the "normalization" of cross-Strait economic relations and facilitating the signing of a "comprehensive agreement."

¶17. (C) Wen hinted at possible progress on the question of Taiwan's international space by repeating Hu Jintao's previous pledge that China is "ready to make fair and reasonable arrangements" regarding Taiwan's participation in international organizations. Summarizing other proposals previously made by Hu Jintao, Wen said China is "ready to 'hold talks' on cross-Strait political and military issues" and create conditions for "ending the state of hostility" and "concluding a peace agreement." (Comment: The NPC-provided English translation used the word "hold talks" on political and military issues, but the Chinese version uses the word "tan tao" ("exploratory discussions"), which is identical to the phrase used in Hu's December 31 speech. Thus Wen's remarks appear designed not to break any new ground but rather to summarize the Mainland's previously stated positions.) Unlike last year, when Wen's tough language on Taiwan elicited repeated, thunderous applause, this year the audience waited politely until the end of the Taiwan section to offer its loudest applause of the day, in response to Wen's hope that China eventually "will achieve complete reunification of the motherland."

Rule of Law, Political Reform and Corruption

¶18. (C) Premier Wen provided no new language or proposals on political change, simply reiterating the Party's boilerplate rhetoric on law and political reform. (Comment: The apparent lack of initiatives on political reform supports the views of a number of Embassy contacts that, in light of the leadership's concern with economic problems and social stability, there is no chance of movement on political reform in the near term.) Employing largely empty rhetoric, Wen's report promised to "govern the nation by rule of law," "deepen reform of the political system" and "expand people's democracy," including "democratic elections, and "people's right to know, participate, and express views." Wen also reiterated previous calls for continued reform of Government performance and style, including efficiency and "transparency" and allowing a greater role for civic organizations in Government policy. Unlike last year's report, the report specifically gave the NPC and CPPCC the responsibility for oversight of Government operations.

¶19. (C) Premier Wen reiterated the government's standard tough language on opposing corruption, but the report this year contained fewer concrete details. Wen made repeated

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pledges to keep the new government fiscal stimulus package corruption-free. (Comment: Wen's comments appear to signal leadership concern over public perceptions that corruption would misdirect and waste the fiscal stimulus package.) Wen said the government would "never allow any organization or individual to exploit the surge in public spending for private gain." Adding a colloquial, rhetorical flourish which prompted audience applause, Wen declared "where administrative power is present, oversight will be present; where use of government funds is present, auditing will be present."

Religion and Minority Issues

¶20. (C) Wen reiterated language from last year about "enabling religious figures and people with religious belief to play a positive role in promoting economic and social development." Wen made no mention of the serious unrest that swept Tibetan regions of China in 2008 but his report did devote slightly more space this year to minority affairs, with a greater emphasis on "promoting unity among all ethnic groups." In addition to repeating past language regarding implementation of China's system of regional ethnic autonomy, the report states, in an apparent reference to Tibet, "We will support more rapid development of pastoral areas and ethnic minority mountain regions." The paragraph on minorities ends with new language that "(we) will unswervingly uphold national unity and further develop socialist ethnic relations based on equality, unity, mutual assistance and harmony." Bai Fengzhi, a delegate from Yunnan Province and a member of the Hani minority, told PolOff right after Wen concluded his speech that she felt the discussion of minority issues in this latest work report was little changed from last year. "Relations between ethnic groups are very good right now," Bai enthused.

Delegates Comments

¶21. (C) A number of NPC delegates offered comments on Premier Wen's report after the session concluded:

-- Ningxia Hui Autonomous Region Vice Governor Yao Aixing told EmbOff that Wen's work report was "significant" for Ningxia because it mentioned the development needs of western China, meaning more infrastructure investment in Ningxia, which Yao said is still key to growth despite the recent emphasis on boosting individual spending.

-- Bai Fengzhi, the Hani minority delegate from Yunnan Province, told PolOff this year's work report was "closer to

the people," since it included "more detail" about government efforts to help ordinary citizens.

-- Zhang Jianxing, a delegate from Zhejiang Province, said the main differences between this latest report and last year's dealt with the state of the economy. "Last year the economy was still very strong, but now we are truly facing a real slowdown." Zhang told PolOff the "bao ba" goal (maintaining eight percent GDP growth) was the "most important" policy statement in the report. Despite the current difficulties, Zhang thought the eight percent goal was achievable.

-- Bai Xiangcheng, a delegate from the Ningxia Hui Autonomous Region and a member of the Muslim Hui minority, similarly said efforts to maintain economic growth were the "key" parts of the report. Like Zhang, Bai thought the "bao ba" goal "should be achievable" in the year ahead.
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